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CC DOCKET 95-60

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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IN REPLY REFER TO: 1600E

December 6, 1995

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APR 30 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. Carl Geppert
Arthur Anderson
33 West Monroe Street
Chicago, Illinois 60603-5385

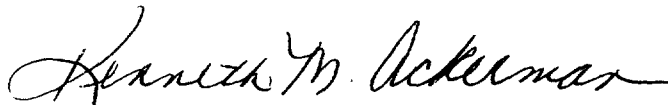
Re: Expense Limit Survey
CC Docket No. 95-60

Dear Mr. Geppert:

On May 31, 1995, the Commission released a Notice of Proposed Rulemaking ("NPRM") to amend Part 32 of the Commission's rules to raise the expense limit for certain items of equipment from \$500 to \$750. In conjunction with this NPRM, we determined that it would be prudent to survey other industries, both regulated and nonregulated, regarding their capitalization policies. We hope that you can assist us in our survey by providing information on a sampling of nonregulated, nontelecommunications companies that your CPA firm has a client. This information will assist us in determining an appropriate expense limit.

We have prepared a brief questionnaire regarding the capitalization policies of other industries. We would appreciate your assistance in completing this questionnaire for five mid to large sized companies. We would prefer that you identify each of the five companies by name, however, if such information is proprietary, identifying by industry or type of activity would be acceptable. We would appreciate a response by December 21, 1995. Please send your response to: Kenneth M. Ackerman; Chief, Accounting Systems Branch; Federal Communications Commission; 2000 L St., N.W., Room 812; Washington, D.C. 20554. If you have any questions please contact either Debbie Weber or Tom Petras of my staff at 202-418-0810. We thank you in advance for your cooperation.

Sincerely,



Kenneth M. Ackerman
Chief, Accounting Systems Branch

Attachment

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ARTHUR
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CC Docket 95-60

ARTHUR ANDERSEN & CO. SC

EX PARTE OR LATE FILED

February 12, 1996

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Arthur Andersen LLP

Mr. Kenneth M. Ackerman
Chief, Accounting Systems Branch
Federal Communications Commission
2000 L Street, N.W., Room 812
Washington, D.C. 20554

APR 30 1996

33 West Monroe Street
Chicago IL 60603-5385

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Dear Mr. Ackerman:

Arthur Andersen LLP appreciates the opportunity to provide input to the Commission's proceeding in CC Docket No. 95-60 regarding the appropriate expense limit for support assets. This information is provided in response to your letter dated December 6, 1995 (reference number 1600E) in which you request information regarding the capitalization policies of mid to large sized nonregulated, nontelecommunications companies.

The requested information for ten companies is included in the attachment to this memorandum. Please note that for proprietary reasons, the names of these companies cannot be disclosed -- the industry each operates in is noted, however. In addition to the attached information, the following U.S. governmental agency requirements should be noted:

- The Office of Management and Budget (OMB), via OMB Circular A-87, prescribes a \$5,000 expense limit for state and local governmental entities. OMB Circular A-87 was revised in May 1995 -- in its proceeding, OMB considered the possibility of raising the \$5,000 expense limit, possibly up to the Department of Health and Human Services \$25,000 level, but concluded that the \$5,000 limit was appropriate and "in line with capitalization levels used by government contractors and others."
- The Cost Accounting Standards Board (CASB), via Standard 404, prescribes a \$1,500 expense limit for large sized government contractors (specifically defense contractors). This limit applies to all assets and was increased in the early 1980s from \$1,000 to the current \$1,500 level.
- The Surface Transportation Board (replaced the Interstate Commerce Commission effective January 1, 1996) has prescribed an expense limit of \$2,000 (for all expenditures) for all railroads subject to the Interstate Commerce Act. Companies may adopt a level less than or greater than \$2,000 with Board approval.

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ARTHUR ANDERSEN & CO, SC

Mr. Kenneth M. Ackerman

Page 2

February 12, 1996

In each of the above industries, there are specific company size and general program/contract requirements that are not detailed herein. In either case, companies the size of the Tier I local exchange carriers would be subject to the above expense limits.

Thank you again for the opportunity to assist the Commission in its efforts in CC Docket No. 95-60. We would be pleased to discuss this letter in more detail with you should you desire. Please call Carl R. Geppert at (312) 507-6271 should you have any questions or comments regarding the contents of this letter.

Very truly yours,

ARTHUR ANDERSEN LLP

By 
Carl R. Geppert

AA

Attachment

**FEDERAL COMMUNICATIONS COMMISSION
CC DOCKET NO. 95-60
SUMMARY OF SUPPORT ASSETS CAPITALIZATION POLICIES**

Company Name (Optional) _____

Industry Apparel Manufacturing

Size of Company (Total Assets) \$5 billion

Are annual gross revenues over \$100 million (yes or no)? Yes

1. Does your client company or industry have an expense limit for support assets (as defined above)? Yes
2. If so, what is that expense limit? \$1000 In the client's industry, do companies have different limits based on company size? Yes. If so, what are those levels? Industry limits vary by company size -- levels are \$500 and up.
3. If your client has an expense limit, and it is not prescribed, how does your client determine what that limit should be? N/A
4. Do you ever question the reasonableness of your client's expense limit? If so, what guidelines do you consider?

Really their call -- amount is immaterial. Most items purchased are much larger.

5. Does your client's expense limit cover assets other than those listed above? If so, what other assets are covered?

Yes -- general guideline for all assets.

6. When was the last time your client increased its expense limit? Several years ago.
7. When your client increased its expense limit, what factors were considered?

Volume of small items being capitalized and tracked.

8. What internal controls does your client currently have in place for tracking assets?

Fixed asset system and periodic physical counts.

9. What types of internal controls does your client have for tracking items that are expensed?

None -- no need to track if you have concluded they are not worth tracking.

**FEDERAL COMMUNICATIONS COMMISSION
CC DOCKET NO. 95-60
SUMMARY OF SUPPORT ASSETS CAPITALIZATION POLICIES**

Company Name (Optional) _____

Industry Manufacturing/Textile Services

Size of Company (Total Assets) \$1 billion

Are annual gross revenues over \$100 million (yes or no)? Yes

1. Does your client company or industry have an expense limit for support assets (as defined above)? Yes
2. If so, what is that expense limit? \$5,000 In the client's industry, do companies have different limits based on company size? Yes If so, what are those levels? Varies
3. If your client has an expense limit, and it is not prescribed, how does your client determine what that limit should be? N/A
4. Do you ever question the reasonableness of your client's expense limit? If so, what guidelines do you consider?

No - immaterial effect on F/S

5. Does your client's expense limit cover assets other than those listed above? If so, what other assets are covered?

All fixed assets are covered

6. When was the last time your client increased its expense limit? Over 5 years ago.
7. When your client increased its expense limit, what factors were considered?

Cost/benefit relationship

8. What internal controls does your client currently have in place for tracking assets?

Periodic physical observation

9. What types of internal controls does your client have for tracking items that are expensed?

Dept managers authorize any purchase greater than \$50

**FEDERAL COMMUNICATIONS COMMISSION
CC DOCKET NO. 95-60
SUMMARY OF SUPPORT ASSETS CAPITALIZATION POLICIES**

Company Name (Optional) _____

Industry Manufacturing

Size of Company (Total Assets) \$50 million

Are annual gross revenues over \$100 million (yes or no)? Yes

1. Does your client company or industry have an expense limit for support assets (as defined above)? Yes
2. If so, what is that expense limit? \$2,500 In the client's industry, do companies have different limits based on company size? Yes. If so, what are those levels? Levels range from \$500 for small companies to \$5,000 for large companies.
3. If your client has an expense limit, and it is not prescribed, how does your client determine what that limit should be? N/A
4. Do you ever question the reasonableness of your client's expense limit? If so, what guidelines do you consider?

Materiality and control of the assets.

5. Does your client's expense limit cover assets other than those listed above? If so, what other assets are covered?

General policy covering all assets with a minimum below the cost threshold.

6. When was the last time your client increased its expense limit? 1994
7. When your client increased its expense limit, what factors were considered?

Materiality and the administrative burden of recordkeeping.

8. What internal controls does your client currently have in place for tracking assets?

Asset tagging.

9. What types of internal controls does your client have for tracking items that are expensed?

Tagging for items which are susceptible to theft.

**FEDERAL COMMUNICATIONS COMMISSION
CC DOCKET NO. 95-60
SUMMARY OF SUPPORT ASSETS CAPITALIZATION POLICIES**

Company Name (Optional) _____

Industry Manufacturing/Oil & Gas

Size of Company (Total Assets) \$600 million

Are annual gross revenues over \$100 million (yes or no)? Yes

1. Does your client company or industry have an expense limit for support assets (as defined above)? Company - yes
2. If so, what is that expense limit? \$2,500 In the client's industry, do companies have different limits based on company size? Yes If so, what are those levels? Varies
3. If your client has an expense limit, and it is not prescribed, how does your client determine what that limit should be?

Cost/benefit analysis

4. Do you ever question the reasonableness of your client's expense limit? If so, what guidelines do you consider?

Reasonable given size of company -- Total assets and revenues used as guidelines.

5. Does your client's expense limit cover assets other than those listed above? If so, what other assets are covered?

Yes -- Manufacturing equipment

6. When was the last time your client increased its expense limit? 1989
7. When your client increased its expense limit, what factors were considered?

Size of company, cost/benefit

8. What internal controls does your client currently have in place for tracking assets?

Fixed asset system, physical inventories

9. What types of internal controls does your client have for tracking items that are expensed?

"Asset" listings

FEDERAL COMMUNICATIONS COMMISSION
CC DOCKET NO. 95-60
SUMMARY OF SUPPORT ASSETS CAPITALIZATION POLICIES

Company Name (Optional) _____

Industry Telecommunications Equipment/Software

Size of Company (Total Assets) \$300 million

Are annual gross revenues over \$100 million (yes or no)? Yes

1. Does your client company or industry have an expense limit for support assets (as defined above)? Yes
2. If so, what is that expense limit? \$2,500 In the client's industry, do companies have different limits based on company size? Yes If so, what are those levels? Varies
3. If your client has an expense limit, and it is not prescribed, how does your client determine what that limit should be?

Cost/benefit analysis and budget review

4. Do you ever question the reasonableness of your client's expense limit? If so, what guidelines do you consider?

Reasonable given size of company -- Total assets and revenues used as guidelines.

5. Does your client's expense limit cover assets other than those listed above? If so, what other assets are covered?

Yes -- All fixed assets

6. When was the last time your client increased its expense limit? January 1996
7. When your client increased its expense limit, what factors were considered?

Size of company, cost/benefit, forecasted annual capital expenditures

8. What internal controls does your client currently have in place for tracking assets?

Standard controls for fixed assets (i.e., fixed asset system, physical inventories, etc.)

9. What types of internal controls does your client have for tracking items that are expensed?

None -- once expensed company does not track in detail.

**FEDERAL COMMUNICATIONS COMMISSION
CC DOCKET NO. 95-60
SUMMARY OF SUPPORT ASSETS CAPITALIZATION POLICIES**

Company Name (Optional) _____

Industry Manufacturing

Size of Company (Total Assets) \$3.5 Billion

Are annual gross revenues over \$100 million (yes or no)? Yes

1. Does your client company or industry have an expense limit for support assets (as defined above)? Yes
2. If so, what is that expense limit? \$2,500 In the client's industry, do companies have different limits based on company size? Generally yes. If so, what are those levels? The limits range from \$500 for small companies to \$5,000 for large companies.
3. If your client has an expense limit, and it is not prescribed, how does your client determine what that limit should be? N/A.
4. Do you ever question the reasonableness of your client's expense limit? Generally has not been an issue. If so, what guidelines do you consider? Materiality and control of the assets.
5. Does your client's expense limit cover assets other than those listed above? If so, what other assets are covered?

General policy covering all assets with a minimum below the cost threshold.
6. When was the last time your client increased its expense limit? 1980s.
7. When your client increased its expense limit, what factors were considered?

Materiality and the administrative burden of record keeping.
8. What internal controls does your client currently have in place for tracking assets?

Asset tagging and physical inventory.
9. What types of internal controls does your client have for tracking items that are expensed?

Tracked for tax purposes as tax authorities do not allow a \$2,500 limit. Tracked for admin/tax reporting purposes only.

**FEDERAL COMMUNICATIONS COMMISSION
CC DOCKET NO. 95-60
SUMMARY OF SUPPORT ASSETS CAPITALIZATION POLICIES**

Company Name (Optional) _____

Industry Transportation-Railroad

Size of Company (Total Assets) \$1.4 Billion

Are annual gross revenues over \$100 million (yes or no)? Yes

1. Does your client company or industry have an expense limit for support assets (as defined above)? Our client and the rail industry does have an expense limit.
2. If so, what is that expense limit? In the client's industry, do companies have different limits based on company size? If so, what are those levels?

The expense limit was prescribed by the Interstate Commerce Commission which was replaced by Congress with the Surface Transportation Board effective January 1, 1996. The limit is \$2,000 for all railroads subject to the Interstate Commerce Act. However, railroads may adopt an amount less then or greater to \$2,000 provided the Commission approves. Our client has a limit of \$500.

3. If your client has an expense limit, and it is not prescribed, how does your client determine what that limit should be? N/A.
4. Do you ever question the reasonableness of your client's expense limit? If so, what guidelines do you consider?

The limit is assessed for reasonableness considering industry practice, materiality and controls over assets.

5. Does your client's expense limit cover assets other than those listed above? If so, what other assets are covered?

As stated above, the limit covers all assets.

6. When was the last time your client increased its expense limit? In 1973, the client decreased the limit to its current level.
7. When your client increased its expense limit, what factors were considered? N/A.
8. What internal controls does your client currently have in place for tracking assets?

Asset tagging.

9. What types of internal controls does your client have for tracking items that are expensed?

Asset tagging for assets which are susceptible to theft.

**FEDERAL COMMUNICATIONS COMMISSION
CC DOCKET NO. 95-60
SUMMARY OF SUPPORT ASSETS CAPITALIZATION POLICIES**

Company Name (Optional) _____

Industry Financial Services

Size of Company (Total Assets) \$29 million

Are annual gross revenues over \$100 million (yes or no)? Yes

1. Does your client company or industry have an expense limit for support assets (as defined above)? Yes
2. If so, what is that expense limit? \$1,000 In the client's industry, do companies have different limits based on company size? Yes If so, what are those levels? Varies
3. If your client has an expense limit, and it is not prescribed, how does your client determine what that limit should be? N/A
4. Do you ever question the reasonableness of your client's expense limit? If so, what guidelines do you consider?

Materiality and control of the assets.

5. Does your client's expense limit cover assets other than those listed above? If so, what other assets are covered? No
6. When was the last time your client increased its expense limit? 1992
7. When your client increased its expense limit, what factors were considered?

Materiality and the administrative burden of recordkeeping.

8. What internal controls does your client currently have in place for tracking assets?

Asset tagging.

9. What types of internal controls does your client have for tracking items that are expensed?

Asset tagging.

FEDERAL COMMUNICATIONS COMMISSION
CC DOCKET NO. 95-60
SUMMARY OF SUPPORT ASSETS CAPITALIZATION POLICIES

Company Name (Optional) _____

Industry Distribution

Size of Company (Total Assets) \$530 million

Are annual gross revenues over \$100 million (yes or no)? Yes

1. Does your client company or industry have an expense limit for support assets (as defined above)? Yes
2. If so, what is that expense limit? \$500 In the client's industry, do companies have different limits based on company size? Yes If so, what are those levels? Varies
3. If your client has an expense limit, and it is not prescribed, how does your client determine what that limit should be? N/A
4. Do you ever question the reasonableness of your client's expense limit? If so, what guidelines do you consider?

Management is comfortable with the limits and controls over accounting for assets. For a company this size the limit could be higher but an overall change in the limit probably would not have a material impact to the financial statements.

5. Does your client's expense limit cover assets other than those listed above? No If so, what other assets are covered? N/A
6. When was the last time your client increased its expense limit?
Policy was put into place approximately 15-20 years ago and there has been no change in the limit.

7. When your client increased its expense limit, what factors were considered? N/A
8. What internal controls does your client currently have in place for tracking assets?

Fixed asset ledgers are kept and reviewed on a monthly basis. the internal audit department also does periodic audits and reviews of the fixed asset area on their own. as well as aiding the external auditors at yearend by verifying physical existence of asset additions.

9. What types of internal controls does your client have for tracking items that are expensed?

Detailed budgets are kept and compared to actual expenses on a monthly basis -- all variations are investigated and explained.

FEDERAL COMMUNICATIONS COMMISSION
CC DOCKET NO. 95-60
SUMMARY OF SUPPORT ASSETS CAPITALIZATION POLICIES

Company Name (Optional) _____

Industry Manufacturing

Size of Company (Total Assets) \$784 million

Are annual gross revenues over \$100 million (yes or no)? Yes

1. Does your client company or industry have an expense limit for support assets (as defined above)? Yes
2. If so, what is that expense limit? In the client's industry, do companies have different limits based on company size? If so, what are those levels?

The expense limit is \$5,000. Other companies within the client's industry have varying expense limits. Our client's limit is within that range.

3. If your client has an expense limit, and it is not prescribed, how does your client determine what that limit should be?

See 7. below.

4. Do you ever question the reasonableness of your client's expense limit? If so, what guidelines do you consider?

The company consults with us before changing their limit. We utilize industry norms as well as IRS guidelines in order to assess the reasonableness of the expense limit.

5. Does your client's expense limit cover assets other than those listed above? If so, what other assets are covered?

The above expense limit covers all assets.

6. When was the last time your client increased its expense limit? March 1995.

7. When your client increased its expense limit, what factors were considered?

The client consulted with Arthur Andersen and the IRS guidelines in order to establish an acceptable limit. Additionally, they considered the time savings in processing along with the financial statement impact of increasing expenses.

8. What internal controls does your client currently have in place for tracking assets?

The purchase order system automatically matches p.o.'s to an authorized fixed asset expenditure (AFE) located in the capital projects system for approval and tracking purposes.

**FEDERAL COMMUNICATIONS COMMISSION
CC DOCKET NO. 95-60
SUMMARY OF SUPPORT ASSETS CAPITALIZATION POLICIES**

9. What types of internal controls does your client have for tracking items that are expensed?

Departmental budgets are maintained and significant deviations from that budget are investigated. Accounts payable personnel review the account distribution on all invoices for reasonableness.